



House of Representatives

General Assembly

File No. 171

February Session, 2022

Substitute House Bill No. 5382

House of Representatives, March 29, 2022

The Committee on Insurance and Real Estate reported through REP. WOOD, K. of the 29th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE INSURANCE HOLDING COMPANY ACT.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 38a-129 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective July 1, 2022*):

3 (a) It shall be the purpose of sections 38a-129 to 38a-140, inclusive, to
4 safeguard the financial security of Connecticut domestic insurance
5 companies by empowering the Insurance Commissioner to supervise
6 the activities of insurance companies doing business within this state
7 which are affiliated with an insurance holding company system, to
8 review the acquisition of control over the management of domestic
9 insurance companies, however effectuated, and to provide standards
10 for such supervision and review.

11 (b) As used in sections 38a-129 to 38a-140, inclusive, the following
12 terms shall have the respective meanings hereinafter set forth, unless the
13 context shall otherwise require:

14 (1) "Affiliate" or "affiliated" has the same meaning as provided in
15 section 38a-1;

16 (2) "Commissioner" means the Insurance Commissioner and any
17 assistant to the Insurance Commissioner designated and authorized by
18 the commissioner while acting under such designation;

19 (3) "Control", "controlled by" or "under common control with" has the
20 same meaning as provided in section 38a-1;

21 (4) "Enterprise risk" means any activity, circumstance, event or series
22 of events involving one or more affiliates of an insurer that, if not
23 remedied promptly, is likely to have a material adverse effect upon the
24 financial condition or liquidity of the insurer or the insurer's insurance
25 holding company system as a whole, including, but not limited to, any
26 activity, circumstance, event or series of events that would cause an
27 insurer's risk-based capital to fall below minimum threshold levels, as
28 described in subsection (d) of section 38a-72 or, for a health care center,
29 in subdivision (2) of subsection (a) of section 38a-193, or would cause
30 the insurer to be in a hazardous financial condition;

31 (5) "Group capital calculation instructions" means the Group Capital
32 Calculation Instructions and Reporting Template as adopted by the
33 NAIC and as amended by the NAIC from time to time in accordance
34 with the procedures adopted by the NAIC;

35 [(5)] (6) "Insurance holding company system" means two or more
36 affiliated persons, one or more of which is an insurance company;

37 [(6)] (7) "Insurance company" or "insurer" has the same meaning as
38 provided in section 38a-1, except that it does not include agencies,
39 authorities or instrumentalities of the United States, its possessions and
40 territories, the Commonwealth of Puerto Rico, the District of Columbia,
41 or a state or political subdivision of a state;

42 [(7)] (8) "NAIC" means the National Association of Insurance
43 Commissioners;

44 (9) "NAIC liquidity stress test framework" means the NAIC Liquidity
45 Stress Test Framework publication which includes a history of the
46 NAIC's development of regulatory liquidity stress testing, the scope
47 criteria applicable for a specific data year, and the liquidity stress test
48 instructions and reporting templates for a specific data year, such scope
49 criteria, instructions, and reporting template being as adopted by the
50 NAIC and as amended by the NAIC from time to time in accordance
51 with the procedures adopted by the NAIC;

52 [(8)] (10) "Person" has the same meaning as provided in section 38a-
53 1, or any combination of persons so defined acting in concert;

54 (11) "Scope criteria" means the designated exposure bases along with
55 minimum magnitudes thereof for the specified data year used to
56 establish a preliminary list of insurers considered scoped into the NAIC
57 liquidity stress test framework for that data year;

58 [(9)] (12) A "securityholder" of a specified person means one who
59 owns any security of such person, including common stock, preferred
60 stock, debt obligations and any other security convertible into or
61 evidencing the right to acquire any of the foregoing;

62 [(10)] (13) "Subsidiary" has the same meaning as provided in section
63 38a-1; and

64 [(11)] (14) "Voting security" includes any security convertible into or
65 evidencing a right to acquire a voting security.

66 (c) The provisions of sections 38a-129 to 38a-140, inclusive, shall
67 apply to captive insurance companies, as defined in section 38a-91aa, as
68 specified in section 38a-91oo.

69 Sec. 2. Subsections (g) to (o), inclusive, of section 38a-135 of the
70 general statutes are repealed and the following is substituted in lieu
71 thereof (*Effective July 1, 2022*):

72 (g) (1) Except as provided in subdivision (2) of this subsection, the
73 ultimate controlling person of every insurer subject to registration shall

74 concurrently file with such registration an annual group capital
75 calculation not later than June first of each year, with the lead state
76 commissioner. The report shall be completed in accordance with the
77 NAIC group capital calculation instructions, which may permit the lead
78 state commissioner to allow a controlling person that is not the ultimate
79 controlling person to file the group capital calculation. The report shall
80 be filed with the lead state commissioner of the insurance holding
81 company system as determined by the lead state commissioner in
82 accordance with the procedures contained in the Financial Analysis
83 Handbook adopted by the NAIC.

84 (2) An insurance holding company system shall be exempt from filing
85 the group capital calculation if it is:

86 (A) An insurance holding company system that has only one insurer
87 within its holding company structure, that only writes business and is
88 only licensed in its domestic state and assumes no business from any
89 other insurer;

90 (B) An insurance holding company system that is subject to the group
91 capital requirements applicable to an insurance group that owns a
92 depository institution or institutions by the United States Federal
93 Reserve Board. The lead state commissioner shall request such group
94 capital requirements applicable to the insurance group from the United
95 States Federal Reserve Board under the terms of information sharing
96 agreements in effect. If the United States Federal Reserve Board cannot
97 share the calculation with the lead state commissioner, the insurance
98 holding company system shall not be exempt from the group capital
99 calculation filing;

100 (C) An insurance holding company system whose non-United States
101 group-wide supervisor is located within a reciprocal jurisdiction as
102 described in section 38a-85 that recognizes the United States regulatory
103 approach to group supervision and group capital; or

104 (D) An insurance holding company system:

105 (i) That provides information to the lead state commissioner that
106 meets the requirements for accreditation under the NAIC financial
107 standards and accreditation program, either directly or indirectly
108 through the group-wide supervisor, who has determined such
109 information is satisfactory to allow the lead state commissioner to
110 comply with the NAIC group supervision approach, as detailed in the
111 NAIC Financial Analysis Handbook; and

112 (ii) Whose non-United States group-wide supervisor that is not in a
113 reciprocal jurisdiction recognizes and accepts, as specified by the lead
114 state commissioner in regulation, the group capital calculation as the
115 world-wide group capital assessment for United States insurance
116 groups who operate in that jurisdiction.

117 (3) Notwithstanding subparagraphs (C) and (D) of subdivision (2) of
118 this subsection, a lead state commissioner shall require the group capital
119 calculation for the United States operations of any non-United States
120 based insurance holding company system where, after any necessary
121 consultation with other supervisors or officials, it is determined
122 appropriate by the lead state commissioner for prudential oversight and
123 solvency monitoring purposes or for ensuring competitiveness of the
124 insurance marketplace.

125 (4) Notwithstanding subparagraphs (A) and (D) of subdivision (2) of
126 this subsection, the lead state commissioner shall have the discretion to
127 exempt the ultimate controlling person from filing the annual group
128 capital calculation or to accept a limited group capital filing or report in
129 accordance with criteria as specified by the lead state commissioner in
130 regulation.

131 (5) If the lead state commissioner determines that an insurance
132 holding company system no longer meets one or more of the
133 requirements for an exemption for filing the group capital calculation
134 under subdivision (2) of this subsection, the insurance holding company
135 system shall file the group capital calculation at the next annual filing
136 date unless given an extension by the lead state commissioner based on
137 reasonable grounds shown.

138 (6) The information reported and provided to the lead state
139 commissioner by an insurance holding company, including an
140 insurance holding company supervised by the United States Federal
141 Reserve Board pursuant to this subsection, shall:

142 (A) Be confidential by law and privileged;

143 (B) Not be subject to disclosure under section 1-210;

144 (C) Not be subject to subpoena; and

145 (D) Not be subject to discovery or admissible in any civil action.

146 (7) The group capital calculation and resulting group capital ratio
147 required pursuant to this subsection are regulatory tools for assessing
148 group risks and capital adequacy and are not intended as a means to
149 rank insurers or insurance holding company systems generally.

150 (h) The ultimate controlling person of every insurer subject to
151 registration and also scoped into the NAIC liquidity stress test
152 framework shall file the results of a specific year's liquidity stress test to
153 the lead state insurance commissioner of the insurance holding
154 company system as determined by procedures within the Financial
155 Analysis Handbook adopted by the NAIC.

156 (1) The NAIC liquidity stress test framework includes scope criteria
157 applicable to a specific data year. These scope criteria are reviewed at
158 least annually by the NAIC Financial Stability Task Force or its
159 successor. Any change to the NAIC liquidity stress test framework or to
160 the data year for which the scope criteria are to be measured shall be
161 effective on January first of the year following the calendar year when
162 such changes are adopted. Insurers meeting at least one threshold of the
163 scope criteria shall be considered scoped into the NAIC liquidity stress
164 test framework for the specified data year unless the lead state
165 commissioner, in consultation with the NAIC Financial Stability Task
166 Force or its successor, determines the insurer should not be scoped into
167 the NAIC liquidity stress test framework for that data year. Insurers that
168 do not trigger at least one threshold of the scope criteria shall be

169 considered scoped out of the NAIC liquidity stress test framework for
170 the specified data year, unless the lead state insurance commissioner, in
171 consultation with the NAIC Financial Stability Task Force or its
172 successor, determines the insurer should be scoped into the NAIC
173 liquidity stress test framework for that data year.

174 (2) The performance of, and filing of the results from, a specific year's
175 liquidity stress test shall comply with the NAIC liquidity stress test
176 framework's instructions and reporting templates for that year and any
177 lead state insurance commissioner determinations, in conjunction with
178 the NAIC Financial Stability Task Force or its successor, provided
179 within the NAIC liquidity stress test framework.

180 (3) The information reported and provided to the lead state
181 commissioner by an insurance holding company, including an
182 insurance holding company supervised by the United States Federal
183 Reserve Board pursuant to this subsection, shall:

184 (A) Be confidential by law and privileged;

185 (B) Not be subject to disclosure under section 1-210;

186 (C) Not be subject to subpoena; and

187 (D) Not be subject to discovery or admissible in any civil action.

188 (4) The liquidity stress test along with its results and supporting
189 disclosures required pursuant to this subsection are regulatory tools for
190 assessing group liquidity risks and are not intended as a means to rank
191 insurers or insurance holding company systems generally.

192 [(g)] (i) The commissioner shall terminate the registration of any
193 insurance company that demonstrates that it no longer is a member of
194 an insurance holding company system.

195 [(h)] (j) The commissioner may require or allow two or more affiliated
196 insurance companies subject to registration hereunder to file a
197 consolidated registration statement.

198 [(i)] (k) The commissioner may allow an insurance company that is
199 authorized to do business in this state and is part of an insurance
200 holding company system to register on behalf of any affiliated insurer
201 that is required to register under subsection (a) of this section and to file
202 all information and materials required to be filed under this section.

203 [(j)] (l) Any person may file with the commissioner a disclaimer of
204 affiliation with any insurance company and any insurance company
205 may file a disclaimer of affiliation with any other person. The disclaimer
206 shall fully disclose all material relationships and bases for affiliation
207 between such person and such insurance company as well as the basis
208 for disclaiming such affiliation. After a disclaimer has been filed, the
209 insurance company shall be relieved of any duty to register or report
210 under this section that may arise out of the insurance company's
211 relationship with such person unless the commissioner disallows such
212 disclaimer. The commissioner shall disallow such disclaimer only after
213 furnishing all parties in interest with notice and an opportunity to be
214 heard, and after making specific findings of fact to support such
215 disallowance.

216 [(k)] (m) The failure to file a registration statement or any
217 amendment, addition thereto or summary or an enterprise risk report
218 required by this section within the time specified for such filing shall be
219 a violation of sections 38a-129 to 38a-140, inclusive, as amended by this
220 act.

221 [(l)] (n) The commissioner may by regulation or order exempt any
222 insurance company or class of insurance companies from registration
223 under this section if, in the commissioner's judgment, registration by
224 such company or class of companies is not necessary to effectuate the
225 purposes of said sections.

226 [(m)] (o) A foreign or alien insurer shall not be required to register
227 pursuant to this section if it is (1) subject to disclosure requirements and
228 standards adopted by statute or regulation in the jurisdiction of its
229 domicile that are substantially similar to those contained in this section
230 and subsections (a), (b), (f) and (g) of section 38a-136, as amended by

231 this act, or (2) admitted in the domiciliary jurisdiction of the principal
232 insurer in its holding company system and in said jurisdiction is subject
233 to disclosure requirements and standards adopted by statute or
234 regulation that are substantially similar to those contained in this section
235 and subsections (a), (b), (f) and (g) of section 38a-136, as amended by
236 this act. The commissioner may require any authorized insurer that is a
237 member of a holding company system not subject to registration under
238 this section to furnish a copy of the registration statement or other
239 information filed by such insurance company with the insurance
240 regulatory authority of its domicile or the domicile of the principal
241 insurer in its holding company system, as the case may be.

242 [(n)] (p) (1) To assess the business strategy, financial, legal or
243 regulatory position risk exposure, risk management or governance
244 processes of a domestic insurance company registered under this
245 section that is part of an insurance holding company system that has
246 international operations, and as part of the examination pursuant to
247 section 38a-14a of such insurance company, the commissioner may
248 initiate, be a member of or participate in a supervisory college, which
249 shall be a temporary or permanent forum for communication between
250 and cooperation among state, federal and international regulatory
251 officials.

252 (2) If the commissioner initiates a supervisory college, the
253 commissioner shall (A) establish the membership of, and participation
254 by state, federal or international regulatory officials in, such supervisory
255 college, (B) establish the functions of the supervisory college and the role
256 of members and participants, and select a chairperson for such
257 supervisory college, (C) coordinate the activities of the supervisory
258 college, including meeting planning and processes for information
259 sharing that comply with the applicable confidentiality provisions set
260 forth in section 38a-137, as amended by this act, and (D) establish a crisis
261 management plan for such supervisory college.

262 (3) The commissioner may enter into written agreements with state,
263 federal or international regulatory officials for the governing of the

264 activities of a supervisory college. Any such agreements shall maintain
265 the confidentiality requirements under section 38a-137, as amended by
266 this act.

267 (4) Each insurance company subject to registration under this section
268 shall be assessed for and shall pay to the commissioner its share of the
269 reasonable costs, including reasonable travel expenses, of the
270 commissioner's participation in a supervisory college. Such payment
271 shall be in addition to any other taxes, fees and moneys otherwise
272 payable to the state. The commissioner shall establish the assessment
273 method for such costs and provide reasonable notice to each insurance
274 company subject to any such assessment.

275 (5) Nothing in this subsection shall be construed to limit the authority
276 of the commissioner to regulate an insurance company or its affiliate
277 under the commissioner's jurisdiction or to delegate any regulatory
278 authority of the commissioner to a supervisory college.

279 [(o)] (q) (1) As used in this subsection: (A) "Group-wide supervisor"
280 means the regulatory official (i) authorized by such official's jurisdiction
281 to conduct and coordinate group-wide supervisory activities, and (ii)
282 who is determined or acknowledged to be the group-wide supervisor of
283 an internationally active insurance group pursuant to this subsection;
284 and (B) "internationally active insurance group" means any insurance
285 holding company system that (i) includes an insurance company
286 registered pursuant to this section, and (ii) meets the following criteria:
287 (I) Premiums are written in at least three countries; (II) the percentage
288 of gross premiums written, including, for purposes of this subsection,
289 administrative service fees, associated expenses and claims payments,
290 without such amounts transacted in the United States is at least ten per
291 cent of the insurance holding company system's total gross written
292 premiums; and (III) based on a three-year rolling average, the total
293 assets of the insurance holding company system are at least fifty billion
294 dollars or the total gross written premiums of the insurance holding
295 company system are at least ten billion dollars.

296 (2) (A) The commissioner, in cooperation with other state, federal and

297 international regulatory agencies of the jurisdictions where members of
298 the internationally active insurance group are domiciled, shall
299 determine a single group-wide supervisor for an internationally active
300 insurance group. An insurance holding company system that does not
301 qualify as an internationally active insurance group may request that
302 the commissioner make a determination or acknowledgment of a group-
303 wide supervisor as set forth in this subsection.

304 (B) The commissioner may determine that the commissioner is the
305 appropriate group-wide supervisor for an internationally active
306 insurance group that conducts substantial insurance business
307 operations in this state and may act as a group-wide supervisor for any
308 internationally active insurance group in accordance with the
309 provisions of this subsection.

310 (C) The commissioner may acknowledge that the regulatory official
311 of another jurisdiction is an appropriate group-wide supervisor for an
312 internationally active insurance group that (i) does not conduct
313 substantial insurance business operations in the United States, (ii)
314 conducts substantial insurance business operations in the United States
315 but not in this state, or (iii) conducts substantial insurance business
316 operations in the United States and in this state but the commissioner
317 has determined, pursuant to the factors set forth in subdivision (3) of
318 this subsection, that the regulatory official of another jurisdiction is the
319 appropriate group-wide supervisor.

320 (D) When another regulatory official is acting as the group-wide
321 supervisor of an internationally active insurance group, the
322 commissioner shall acknowledge such official as the group-wide
323 supervisor, except that the commissioner shall make a determination or
324 acknowledgment of a group-wide supervisor for such insurance group
325 if a material change in such insurance group results in (i) the largest
326 share of such insurance group's premiums, assets or liabilities being
327 held by member insurance companies domiciled in this state, or (ii) this
328 state being the place of domicile of the top-tiered insurance company or
329 companies in such insurance group.

330 (E) A regulatory official determined or acknowledged to be a group-
331 wide supervisor of an internationally active insurance group may
332 determine, after considering the factors set forth in subdivision (3) of
333 this subsection, that it is appropriate to acknowledge another regulatory
334 official to serve as the group-wide supervisor of such insurance group.
335 Such acknowledgment shall be made (i) in cooperation with and subject
336 to the acknowledgment of other regulatory officials of the jurisdictions
337 where members of such insurance group are domiciled, and (ii) in
338 consultation with such insurance group.

339 (3) The commissioner shall consider the following factors in making
340 a determination or acknowledgment under subdivision (2) of this
341 subsection:

342 (A) The place of domicile of the member insurance companies of the
343 internationally active insurance group that holds the largest share of
344 such insurance group's premiums, assets or liabilities;

345 (B) The place of domicile of the top-tiered insurance company or
346 companies in the internationally active insurance group;

347 (C) The locations of the executive offices or the largest operational
348 offices of the internationally active insurance group; and

349 (D) Whether (i) a regulatory official of another jurisdiction is acting
350 or seeking to act as the group-wide supervisor under a regulatory
351 system the commissioner determines to be substantially similar to that
352 provided under the laws of this state or is otherwise sufficient in terms
353 of group-wide supervision, enterprise risk analysis and cooperation
354 with other regulatory officials, and (ii) such regulatory official acting or
355 seeking to act as the group-wide supervisor provides the commissioner
356 with reasonably reciprocal recognition and cooperation.

357 (4) The commissioner may collect, pursuant to section 38a-14a, from
358 any insurance company registered pursuant to this section any
359 information necessary for the commissioner to determine whether the
360 commissioner may act as the group-wide supervisor of an

361 internationally active insurance group of which such company is a
362 member or whether the commissioner may acknowledge that a
363 regulatory official of another jurisdiction should act as the group-wide
364 supervisor of such insurance group.

365 (5) Prior to issuing any determination or acknowledgment under this
366 subsection, the commissioner shall notify the member insurance
367 company registered pursuant to this section and the ultimate controlling
368 person of the internationally active insurance group of such pending
369 determination or acknowledgment. The commissioner shall provide the
370 internationally active insurance group at least thirty calendar days to
371 submit any additional information pertinent to such determination or
372 acknowledgment that is requested by the commissioner or that such
373 insurance group chooses to submit. The commissioner shall publish in
374 the Connecticut Law Journal and post on the Insurance Department's
375 Internet web site a current list of internationally active insurance groups
376 that the commissioner has determined are subject to group-wide
377 supervision by the commissioner.

378 (6) The commissioner may conduct and coordinate the following
379 group-wide supervision activities for an internationally active insurance
380 group for which the commissioner is determined to be the group-wide
381 supervisor:

382 (A) Assess the enterprise risks within the internationally active
383 insurance group to ensure that material financial conditions of and
384 liquidity risks to the members of such insurance group that are engaged
385 in the business of insurance are identified by management and that
386 reasonable and effective mitigation measures are in place;

387 (B) Request from members of such insurance group information
388 necessary and appropriate to assess enterprise risk, including, but not
389 limited to, information about governance, risk assessment and
390 management, capital adequacy and material intercompany transactions;

391 (C) Coordinate and, through the authority of the regulatory officials
392 of the jurisdictions where members of the internationally active

393 insurance group are domiciled, compel the development and
394 implementation of reasonable measures designed to ensure the
395 internationally active insurance group is able to timely recognize and
396 mitigate material enterprise risks to the members of such insurance
397 group that are engaged in the business of insurance;

398 (D) Communicate with other state, federal and international
399 regulatory agencies of the jurisdictions where members of the
400 internationally active insurance group are domiciled and share relevant
401 information, subject to the confidentiality provisions of section 38a-137,
402 as amended by this act, through a supervisory college, as set forth in
403 subsection [(n)] (p) of this section;

404 (E) Enter into agreements with or obtain documentation from any
405 member insurance company registered under this section, any other
406 member of the internationally active insurance group and any other
407 state, federal and international regulatory agencies of the jurisdictions
408 where members of the internationally active insurance group are
409 domiciled, to establish or clarify the commissioner's role as group-wide
410 supervisor and that may include provisions for resolving disputes with
411 other regulatory officials. No such agreement or documentation shall
412 serve as evidence that an insurance company or person within an
413 insurance company holding system that is not domiciled or
414 incorporated in this state is doing business in this state or is otherwise
415 subject to the jurisdiction of this state; and

416 (F) Other activities necessary to effectuate the group-wide
417 supervisory purposes of this section and sections 38a-129 to 38a-140,
418 inclusive, as amended by this act, and within the authority granted in
419 said sections.

420 (7) If the commissioner acknowledges that a regulatory official of a
421 jurisdiction not accredited by NAIC is the group-wide supervisor of an
422 internationally active insurance group, the commissioner shall
423 reasonably cooperate through a supervisory college or otherwise with
424 group supervision undertaken by such group-wide supervisor,
425 provided such cooperation is in compliance with the laws of this state

426 and such group-wide supervisor recognizes and cooperates with the
427 commissioner's activities as a group-wide supervisor for other
428 internationally active insurance groups, where applicable. The
429 commissioner may refuse to cooperate if the commissioner determines
430 such recognition and cooperation are not reasonably reciprocated. The
431 commissioner may enter into agreements with or obtain documentation
432 from any member insurance company registered pursuant to this
433 section, any affiliate of such insurance company and any other state,
434 federal and international regulatory agencies of the jurisdictions where
435 members of the internationally active insurance group are domiciled, to
436 establish or clarify such official's role as group-wide supervisor.

437 (8) The commissioner may adopt regulations, in accordance with the
438 provisions of chapter 54, to carry out the provisions of this subsection.

439 (9) Each insurance company registered pursuant to this section shall
440 be liable for and shall pay the reasonable expenses of the commissioner's
441 administration of this subsection, including the engagement of the
442 services of attorneys, actuaries and other professionals and all
443 reasonable travel expenses.

444 Sec. 3. Section 38a-136 of the general statutes is repealed and the
445 following is substituted in lieu thereof (*Effective July 1, 2022*):

446 (a) Transactions within an insurance holding company system to
447 which an insurance company subject to registration under section 38a-
448 135, as amended by this act, is a party shall be subject to the following
449 requirements:

450 (1) The terms shall be fair and reasonable;

451 (2) [charges] Charges or fees for services performed shall be
452 reasonable;

453 (3) [expenses] Expenses incurred and payment received shall be
454 allocated to the insurance company in conformity with customary
455 insurance accounting practices consistently applied;

456 (4) [the] The books, accounts and records of each party shall be so
457 maintained as to clearly and accurately disclose the precise nature and
458 details of the transactions, including such accounting information as is
459 necessary to support the reasonableness of the charges or fees to the
460 respective parties;

461 (5) [the] The insurance company's surplus shall be reasonable in
462 relation to such company's outstanding liabilities and adequate to its
463 financial needs; [and]

464 (6) [agreements] Agreements for cost-sharing services and
465 management shall include such provisions as may be required by
466 regulations adopted by the commissioner; [.]

467 (7) If an insurance company subject to sections 38a-129 to 38a-140,
468 inclusive, as amended by this act, is determined by the commissioner to
469 be in a hazardous financial condition as set forth in sections 38a-8-101 to
470 38a-8-104, inclusive, of the regulations of Connecticut state agencies or
471 a condition that would be grounds for supervision, conservation or a
472 delinquency proceeding as set forth in chapter 704c, the commissioner
473 may require the insurance company to secure and maintain either a
474 deposit, held by the commissioner, or a bond, as determined by the
475 insurance company at the insurance company's discretion, for the
476 protection of the insurance company for the duration of the contracts or
477 agreements, or the existence of the condition for which the
478 commissioner required the deposit or the bond. In determining whether
479 the bond is required, the commissioner shall consider whether concerns
480 exist with respect to affiliates of the insurance company to fulfill the
481 contracts or agreements if the insurance company were to be put into
482 liquidation. Once the insurance company is determined to be in a
483 hazardous financial condition or a condition that is grounds for
484 supervision, conservation or a delinquency proceeding, and a deposit
485 or bond is necessary, the commissioner may determine the amount of
486 the deposit or bond, not to exceed the value of the contracts or
487 agreements in any one year, and whether such deposit or bond shall be
488 required for a single contract, multiple contracts or a contract only with

489 a specific affiliate of the insurance company;

490 (8) All records and data of the insurance company held by an affiliate
491 shall remain the property of the insurance company and shall be subject
492 to control of the insurance company, identifiable, and segregated or
493 readily capable of segregation, at no additional cost to the insurance
494 company, from all other persons' records and data, including, but not
495 limited to, all records and data that are otherwise the property of the
496 insurance company, in whatever form maintained, including, but not
497 limited to, claims and claim files, policyholder lists, application files,
498 litigation files, premium records, rate books, underwriting manuals,
499 personnel records, financial records or similar records within the
500 possession, custody or control of the affiliate. At the request of the
501 insurance company, the affiliate shall provide that the receiver can
502 obtain a complete set of all records of any type that pertain to the
503 insurance company's business; obtain access to the operating systems
504 on which the data is maintained; obtain the software that runs such
505 systems either through assumption of licensing agreements or
506 otherwise; and restrict the use of the data by the affiliate if it is not
507 operating the insurance company's business. The affiliate shall provide
508 a waiver of any landlord lien or other encumbrance to give the insurance
509 company access to all records and data in the event of the affiliate's
510 default under a lease or other agreement; and

511 (9) Premiums or other funds that belong to the insurance company
512 that are collected by or held by an affiliate or affiliates are the exclusive
513 property of the insurance company and shall be subject to the control of
514 the insurance company. Any right of offset of amounts due to or due
515 from the insurance company and an affiliate or affiliates in the event an
516 insurance company is placed into receivership shall be subject to chapter
517 704c.

518 (b) (1) The following transactions involving a domestic insurance
519 company and any person in its holding company system, including
520 amendments to or modifications of affiliate agreements previously filed
521 pursuant to this section and that are subject to any materiality standards

522 specified in subparagraphs (A) to (G), inclusive, of this subdivision, may
523 not be entered into unless the insurance company has notified the
524 commissioner in writing of its intention to enter into such transaction at
525 least thirty days prior thereto, or such shorter period as the
526 commissioner may permit, and the commissioner has approved or not
527 disapproved it within such period. The written notice for such
528 amendments or modifications shall specify the reasons for the change
529 and the financial impact on the domestic insurance company. Not later
530 than thirty days after the termination of a previously filed agreement,
531 the domestic insurance company shall notify the commissioner of such
532 termination for the commissioner's determination of what written notice
533 or filing shall be required, if any:

534 (A) Sales, purchases, exchanges, loans or extensions of credit, or
535 investments, provided such transactions are equal to or exceed: (i) With
536 respect to nonlife insurance companies, the lesser of three per cent of the
537 insurance company's admitted assets or twenty-five per cent of surplus;
538 or (ii) with respect to life insurance companies, three per cent of the
539 insurance company's admitted assets; each as of the thirty-first day of
540 December next preceding;

541 (B) Loans or extensions of credit to any person who is not an affiliate,
542 where the insurance company makes such loans or extensions of credit
543 with the agreement or understanding that the proceeds of such
544 transactions, in whole or in substantial part, are to be used to make loans
545 or extensions of credit to, to purchase assets of, or to make investments
546 in, any affiliate of the insurance company making such loans or
547 extensions of credit, provided such transactions are equal to or exceed:
548 (i) With respect to nonlife insurance companies, the lesser of three per
549 cent of the insurance company's admitted assets or twenty-five per cent
550 of surplus; or (ii) with respect to life insurance companies, three per cent
551 of the insurance company's admitted assets; each as of the thirty-first
552 day of December next preceding;

553 (C) Reinsurance agreements or modifications thereto, including (i) all
554 reinsurance pooling agreements, and (ii) agreements in which the

555 reinsurance premium or a change in the insurance company's liabilities,
556 or the projected reinsurance premium or a projected change in the
557 insurance company's liabilities in any of the next three years, equals or
558 exceeds five per cent of the insurance company's surplus, as of the
559 thirty-first day of December next preceding, including those agreements
560 that may require as consideration the transfer of assets from an
561 insurance company to a nonaffiliate, if an agreement or understanding
562 exists between the insurance company and nonaffiliate that any portion
563 of such assets will be transferred to one or more affiliates of the
564 insurance company;

565 (D) All management agreements, service contracts, tax allocation
566 agreements and cost-sharing arrangements;

567 (E) Guarantees by a domestic insurance company, except that a
568 guarantee that is (i) quantifiable as to amount, and (ii) does not exceed
569 the lesser of one-half of one per cent of the insurance company's
570 admitted assets or ten per cent of surplus with regard to policyholders,
571 as of the thirty-first day of December next preceding, shall not be subject
572 to the notice requirement of this subsection;

573 (F) Direct or indirect acquisitions or investments in a person that
574 controls the domestic insurance company or in an affiliate of the
575 insurance company in an amount that, together with the insurance
576 company's present holdings in such investments, exceeds two and one-
577 half per cent of the insurance company's surplus with regard to
578 policyholders. This subsection shall not apply to direct or indirect
579 acquisitions of or investments in (i) subsidiaries acquired pursuant to
580 section 38a-102d or authorized pursuant to any section of this title other
581 than sections 38a-129 to 38a-140, inclusive, as amended by this act, or (ii)
582 nonsubsidiary affiliates that are subject to the provisions of sections 38a-
583 129 to 38a-140, inclusive, as amended by this act; and

584 (G) Any material transactions, specified by regulation, that the
585 commissioner determines may adversely affect the interests of the
586 insurance company's policyholders.

587 (2) Nothing contained in this section shall be deemed to authorize or
588 permit any transactions that, in the case of an insurance company not a
589 member of the same insurance holding company system, would be
590 otherwise contrary to law.

591 (c) A domestic insurance company may not enter into transactions
592 that are part of a plan or series of like transactions with persons within
593 the insurance holding company system if the purpose of those separate
594 transactions is to avoid the statutory threshold amount and thus avoid
595 the review that would otherwise occur. If the commissioner determines
596 that such separate transactions were entered into over any twelve-
597 month period for such purpose, the commissioner may exercise
598 authority under section 38a-140.

599 (d) The commissioner, in reviewing transactions pursuant to
600 subsection (b) of this section, shall consider whether the transactions
601 comply with the standards set forth in subsection (a) of this section and
602 whether they may adversely affect the interests of policyholders.

603 (e) Except as may be exempted pursuant to regulations adopted, in
604 accordance with the provisions of chapter 54, by the commissioner or
605 otherwise waived by the commissioner, the commissioner shall be
606 notified not later than thirty days after any material investment of the
607 domestic insurance company in any one corporation if the total
608 investment in such corporation by such insurance company's insurance
609 holding company system exceeds ten per cent of such corporation's
610 voting securities.

611 (f) (1) No insurance company subject to registration under section
612 38a-135, as amended by this act, shall pay any extraordinary dividend
613 or make any other extraordinary distribution to its stockholders until
614 the commissioner has approved such payment or until thirty days after
615 the commissioner has received notice from such company of the
616 declaration thereof within which period the commissioner has not
617 disapproved such payment, whichever is sooner. For the purposes of
618 this subsection, an extraordinary dividend or distribution is any
619 dividend or distribution of cash or other property, whose fair market

620 value together with that of other dividends or distributions made within
621 the preceding twelve months, exceeds the greater of (A) ten per cent of
622 such insurance company's surplus as of the thirty-first day of December
623 last preceding, or (B) the net gain from operations of such insurance
624 company, if such company is a life insurance company, or the net
625 income, if such company is not a life insurance company, for the twelve-
626 month period ending the thirty-first day of December last preceding,
627 but shall not include pro rata distributions of any class of the insurance
628 company's own securities.

629 (2) Notwithstanding any other provision of law, an insurance
630 company may declare an extraordinary dividend or distribution that is
631 conditional upon the commissioner's approval thereof, but such a
632 declaration shall confer no rights upon stockholders until (A) the
633 commissioner has approved the payment of such dividend or
634 distribution, or (B) until thirty days after such declaration thereof within
635 which period the commissioner has not disapproved such declaration,
636 whichever is sooner.

637 (g) For purposes of sections 38a-129 to 38a-140, inclusive, as amended
638 by this act, in determining whether an insurance company's surplus is
639 reasonable in relation to the insurance company's outstanding liabilities
640 and adequate to its financial needs, the following factors, in addition to
641 others, shall be considered: (1) The size of the insurance company as
642 measured by its assets, capital and surplus, reserves, premium writings,
643 insurance in force and other appropriate criteria; (2) the extent to which
644 the insurance company's business is diversified among the several lines
645 of insurance; (3) the number and size of risks insured in each line of
646 business; (4) the nature of the geographical dispersion of the insurance
647 company's insured risks; (5) the nature and extent of the insurance
648 company's reinsurance program; (6) the quality, diversification and
649 liquidity of the insurance company's investment portfolio; (7) the recent
650 past and projected future trend in the size of the insurance company's
651 surplus; (8) the surplus maintained by other comparable insurance
652 companies; (9) the adequacy of the insurance company's reserves; (10)
653 the quality of the company's earnings and the extent to which the

654 reported earnings include extraordinary items; and (11) the quality and
655 liquidity of investments in affiliates. The commissioner may discount
656 any such investment or treat any such investment as a disallowed asset
657 for purposes of determining the adequacy of surplus whenever, in the
658 commissioner's judgment, such investment warrants.

659 (h) (1) Any domestic insurance company that is affiliated with an
660 insurance holding company system shall report for informational
661 purposes to the Insurance Commissioner all dividends and other
662 distributions to securityholders, not later than five business days after
663 the declaration and at least ten days, commencing from the date of
664 receipt by the Insurance Department, prior to payment thereof.

665 (2) No dividend or other distribution may be paid when the surplus
666 of the insurance company is less than the surplus required by section
667 38a-72 for the kind or kinds of business authorized to be transacted by
668 such company, nor when the payment of a dividend or other
669 distribution would reduce its surplus to less than such amount.

670 (3) Except as otherwise provided by law, no dividend or other
671 distribution exceeding an amount equal to an insurance company's
672 earned surplus may be paid without the Insurance Commissioner's
673 prior approval. For purposes of this subsection, "earned surplus" means
674 "unassigned funds-surplus", as defined in the annual report of the
675 insurance company that was most recently submitted pursuant to
676 section 38a-53, reduced by twenty-five per cent of unrealized
677 appreciation in value or revaluation of assets or unrealized profits on
678 investments, as defined in such report.

679 (i) (1) The commissioner may require a domestic insurance company
680 of which control has been acquired pursuant to section 38a-130 to
681 submit to a financial examination and a market conduct examination
682 within thirty days after such acquisition in accordance with procedures
683 set forth by NAIC's examiner's handbook and such regulations as the
684 commissioner may adopt.

685 (2) No domestic insurance company of which control has been

686 acquired pursuant to section 38a-130 shall, without the prior approval
687 of the commissioner: (A) Pay or propose to pay any dividend during the
688 period of two years from the date of acquisition of control of such
689 insurance company; (B) acquire or enter into an agreement or
690 understanding to acquire control, during the period of three years after
691 the date of acquisition of control of such insurance company, of any
692 other person or persons whose assets exceed twenty-five million dollars;
693 (C) provide or propose to provide directly or indirectly, during the
694 period of three years after the date of acquisition of control of such
695 insurance company, any loans, advances, guarantees, pledges or other
696 financial assistance; or (D) engage in any material transaction with any
697 person during the period of three years after the date of acquisition of
698 such insurance company. For purposes of this subsection, a "material
699 transaction" shall include, but not be limited to, any transfer or
700 encumbrance of assets not in the ordinary course of business that,
701 together with all other transfers or encumbrances made within the
702 preceding twelve months, exceeds in value the greater of (i) ten per cent
703 of such insurance company's surplus as of the December thirty-first last
704 preceding, or (ii) the net gain from operations of such insurance
705 company, if such company is a life insurance company, or the net
706 investment income of such company, if such company is not a life
707 insurance company, for the twelve-month period ending the December
708 thirty-first last preceding.

709 (3) The commissioner shall, upon a written request from the
710 controlled domestic insurance company and, upon public hearing after
711 notice to all interested parties, determine whether any limitations
712 contained in subdivision (2) of this subsection shall be continued, or
713 whether and on what conditions they may be waived. Such
714 determination shall be predicated on the results of the examinations
715 under subdivision (1) of this subsection and such further examinations,
716 if any, the commissioner may require concerning the adequacy of the
717 insurance company's reserves, the effect any proposed transaction will
718 have on the insurance company's surplus, its cash flow needs and its
719 ability to satisfy any reasonably anticipated obligations in the
720 foreseeable future, and any other effect the proposed transaction would

721 have on the financial stability or solvency of the insurance company and
722 the quality and liquidity of its assets. All fees and expenses relating to
723 such examinations shall be paid by the insurance company.

724 (4) Nothing in this subsection shall be interpreted to prohibit any
725 transactions between a domestic insurance company and any of its
726 subsidiaries in the ordinary course of business.

727 (j) (1) Any affiliate that is a party to an agreement or contract with a
728 domestic insurance company that is subject to subparagraph (D) of
729 subdivision (1) of subsection (b) of this section shall be subject to the
730 jurisdiction of any order of rehabilitation or liquidation against the
731 insurance company and to the authority of any rehabilitator or
732 liquidator for the insurance company appointed pursuant to chapter
733 704c, for the purpose of interpreting, enforcing and overseeing the
734 affiliate's obligations under the agreements or contracts to perform
735 services for the insurance company that:

736 (A) Are an integral part of the insurance company's operations,
737 including, but not limited to, management, administration, accounting,
738 data processing, marketing, underwriting, claims handling, investment
739 or any other similar functions; or

740 (B) Are essential to the insurance company's ability to fulfill its
741 obligations under insurance policies.

742 (2) The commissioner may require that an agreement or contract
743 pursuant to subparagraph (D) of subdivision (1) of subsection (b) of this
744 section for provisions or services set forth in subparagraphs (A) and (B)
745 of subdivision (1) of this subsection specify that the affiliate consents to
746 the jurisdiction described in subdivision (1) of this subsection.

747 Sec. 4. Section 38a-137 of the general statutes is repealed and the
748 following is substituted in lieu thereof (*Effective July 1, 2022*):

749 (a) All information, documents, materials and copies thereof obtained
750 by or disclosed to the commissioner or any other person in the course of
751 an examination or investigation made pursuant to section 38a-14a and

752 all information reported, furnished or filed pursuant to sections 38a-131,
753 38a-135, as amended by this act, and 38a-136, as amended by this act,
754 shall (1) be confidential by law and privileged, (2) not be subject to
755 disclosure under section 1-210, (3) not be subject to subpoena, and (4)
756 not be subject to discovery or admissible in evidence in any civil action.
757 The commissioner shall not make such information, documents,
758 materials or copies public without the prior written consent of the
759 insurance company to which it pertains unless the commissioner, after
760 giving the insurance company and its affiliates who would be affected
761 thereby notice and opportunity to be heard, determines that the interests
762 of policyholders, securityholders or the public will be served by the
763 publication thereof, in which event the commissioner may publish all or
764 any part thereof in such manner as the commissioner may deem
765 appropriate. The commissioner may use such information, documents,
766 materials or copies in the furtherance of any regulatory or legal action
767 brought as part of the commissioner's official duties.

768 (b) Neither the commissioner nor any person who receives
769 information, documents, materials or copies as set forth in subsection
770 (a) of this section or with whom such information, documents, materials
771 or copies are shared, while acting under the authority of the
772 commissioner, shall testify or be required to testify in any civil action
773 concerning such information, documents, materials or copies.

774 (c) Except as specified in subdivision (2) of subsection (f) of section
775 38a-135, as amended by this act, to assist the commissioner in the
776 performance of the commissioner's duties, the commissioner:

777 (1) May share information, documents, materials or copies thereof,
778 including information, documents, materials or copies deemed
779 confidential and privileged pursuant to subsection (a) of this section,
780 with (A) other state, federal and international regulatory officials, (B)
781 the NAIC [or its affiliate or subsidiaries] and any third-party consultants
782 designated by the commissioner, (C) the International Association of
783 Insurance Supervisors, (D) the Bank for International Settlements, (E)
784 the Federal Insurance Office, (F) state, federal and international law

785 enforcement authorities, and (G) members or participants of a
786 supervisory college, as described in subsection [(n)] (p) of section 38a-
787 135, as amended by this act, of which the commissioner is a member or
788 a participant, provided the recipient of any such information,
789 documents, materials or copies agrees, in writing, to maintain the
790 confidentiality and privileged status of such information, documents,
791 materials and copies, and has verified, in writing, the recipient's legal
792 authority to maintain confidentiality;

793 (2) May receive information, documents, materials or copies thereof,
794 including confidential and privileged information, documents,
795 materials or copies, from the NAIC [or its affiliates or subsidiaries] and
796 any third-party consultants designated by the commissioner, the
797 International Association of Insurance Supervisors, the Bank for
798 International Settlements, the Federal Insurance Office, or state, federal
799 and international law enforcement authorities. The commissioner shall
800 maintain as confidential and privileged any information, documents,
801 materials or copies received with notice or the understanding that such
802 information, documents, materials or copies are confidential and
803 privileged under the laws of the jurisdiction that is the source of such
804 information, documents, materials or copies; and

805 (3) Shall enter into written agreements consistent with this subsection
806 with the NAIC and any third-party consultants designated by the
807 commissioner, and may enter into written agreements consistent with
808 this subsection with the International Association of Insurance
809 Supervisors or the Bank for International Settlements, governing the
810 sharing and use of information, documents, materials or copies thereof
811 shared or received pursuant to sections 38a-129 to 38a-140, inclusive, as
812 amended by this act. Any such agreement consistent with this
813 subsection shall (A) specify the procedures and protocols regarding the
814 confidentiality and security of information shared (i) with the NAIC [or
815 its affiliates or subsidiaries] or a third-party consultant designated by
816 the commissioner, the International Association of Insurance
817 Supervisors or the Bank for International Settlements pursuant to
818 sections 38a-129 to 38a-140, inclusive, as amended by this act, and (ii) by

819 the NAIC [or its affiliates or subsidiaries] or a third-party consultant
820 designated by the commissioner, the International Association of
821 Insurance Supervisors or the Bank for International Settlements with
822 other state, federal or international regulatory officials, (B) provide that
823 the recipient agrees in writing to maintain the confidentiality and
824 privileged status of the documents, materials or other information and
825 has verified in writing the recipient's legal authority to maintain such
826 confidentiality or privilege, (C) specify that the commissioner shall
827 retain ownership of such information and that the use of such
828 information by the NAIC [or its affiliates or subsidiaries] or a third-party
829 consultant, the International Association of Insurance Supervisors or the
830 Bank for International Settlements is subject to the commissioner's
831 discretion, [(C)] (D) excluding documents, material or information
832 reported pursuant to subsection (h) of section 38a-135, as amended by
833 this act, prohibit the NAIC or third-party consultant designated by the
834 commissioner from storing such information shared pursuant to
835 sections 38a-129 to 38a-140, inclusive, as amended by this act, in a
836 permanent database after the underlying analysis is completed, (E)
837 require prompt notice to be given to an insurance company whose
838 confidential information is in the possession of the NAIC or [its affiliates
839 or subsidiaries] a third-party consultant designated by the
840 commissioner, the International Association of Insurance Supervisors or
841 the Bank for International Settlements, if the NAIC or [its affiliates or
842 subsidiaries] a third-party consultant designated by the commissioner,
843 the International Association of Insurance Supervisors or the Bank for
844 International Settlements is subject to a request or subpoena for
845 disclosure or production of such information, [and (D)] (F) require the
846 NAIC or [its affiliates or subsidiaries] a third-party consultant
847 designated by the commissioner, the International Association of
848 Insurance Supervisors or the Bank for International Settlements, if any
849 said entity [or such affiliate or subsidiary] is subject to disclosure of an
850 insurance company's confidential information that has been shared with
851 said entity, [or such affiliate or subsidiary,] to allow such insurance
852 company to intervene in any judicial or administrative action regarding
853 such disclosure or information, and (G) for documents, material or

854 information reported pursuant to subsection (h) of section 38a-135, as
 855 amended by this act, in the case of an agreement involving a third-party
 856 consultant, provide for notification of the identity of the consultant to
 857 the applicable insurer.

858 (d) No waiver of any applicable privilege or claim of confidentiality
 859 in any information, documents, materials or copies thereof shall occur
 860 as a result of disclosure to the commissioner or of sharing in accordance
 861 with this section. Nothing in this section shall be construed to delegate
 862 any regulatory authority of the commissioner to any person or entity
 863 with which any information, documents, materials or copies thereof
 864 have been shared.

865 (e) Any information, documents, materials or copies thereof in the
 866 possession of the NAIC or [its affiliates or subsidiaries] a third-party
 867 consultant designated by the commissioner, the International
 868 Association of Insurance Supervisors or the Bank for International
 869 Settlements pursuant to this section shall be confidential by law and
 870 privileged and shall not be subject to discovery or admissible in
 871 evidence in any civil action in this state.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2022</i>	38a-129
Sec. 2	<i>July 1, 2022</i>	38a-135(g) to (o)
Sec. 3	<i>July 1, 2022</i>	38a-136
Sec. 4	<i>July 1, 2022</i>	38a-137

INS *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

The bill is not anticipated to result in a fiscal impact, as the Insurance Department has the necessary resources and expertise to implement it.

The Out Years

State Impact: None

Municipal Impact: None

Sources: Connecticut Insurance Department

OLR Bill Analysis**sHB 5382*****AN ACT CONCERNING THE INSURANCE HOLDING COMPANY ACT.*****SUMMARY**

Existing law allows the insurance commissioner to supervise and review insurers doing business in Connecticut that are affiliated with an insurance holding company system. By law, an “insurance holding company system” is two or more affiliated people or companies, one of which is an insurance company. In practice, this allows the insurance commissioner to require that a holding company system take actions to reduce “enterprise risk,” which is a risk to an insurer or its affiliates that is likely to impact the insurer’s or holding company’s financial condition or liquidity.

This bill generally adopts the National Association of Insurance Commissioners (NAIC) amendments to the Model Insurance Holding Company System Regulatory Act on group capital calculations and liquidity stress tests for insurers affiliated with an insurance holding company. These calculations and test results give regulators insight on insurance holding company systems’ financial health.

In practice, these amendments are necessary to conform to international agreements on “worldwide supervisors,” which are states and jurisdictions that supervise insurers with affiliates in certain international reciprocal jurisdictions (e.g., insurance groups domiciled in Connecticut with affiliates in the European Union or the United Kingdom). Under these agreements, Connecticut must adopt certain standards together with other states.

The bill also incorporates NAIC amendments that ensure a domestic insurance company in receivership that is associated with an insurance

company holding system continues to receive essential services from an affiliate that it has contracted with. It:

1. requires insurers that are in hazardous financial condition and are part of an insurance holding company to secure money or a bond that covers certain existing obligations and
2. subjects companies affiliated with, and that have certain contractual obligations to, an insurer in receivership to the receiver's authority in certain circumstances.

With respect to insurers that are part of an insurance holding company systems, the bill, in line with NAIC model language, also requires agreements within an insurance company holding system to (1) keep an insurer's data accessible, identifiable, and segregated and (2) maintain as the insurer's exclusive property any of its premiums or funds held by an affiliate.

In line with NAIC amendments, the bill integrates third party consultants into certain provisions of existing law that govern how, and with whom, NAIC can share certain confidential information.

The bill also expands the definition of "internationally active insurance group" for the purposes of insurance holding company regulation. Current law defines an "internationally active insurance group" as an insurance group that, among other things, writes (1) premiums in at least three countries and (2) at least 10% of its gross premiums outside the United States. The bill includes in "gross premiums" for the purpose of this calculation, administrative service fees, associated expenses, and claim payments.

Finally, the bill makes technical and conforming changes.

EFFECTIVE DATE: July 1, 2022

GROUP CAPITAL CALCULATIONS

By law, insurers doing business in Connecticut as part of an insurance holding company system must register with the Connecticut insurance

commissioner.

The bill requires the ultimate controlling person of these insurers to file an annual group capital calculation by June 1 annually, and concurrently with their registration. The group capital calculation must be filed with the lead state commissioner, as determined by certain NAIC procedures (e.g., the commissioner of the state in which the holding company is domiciled). (The group capital calculation requirement is a financial tool that assists state insurance regulators identify risks that may come from from a holding company system.)

The report must be completed using the NAIC Group Capital Calculation Instructions and Reporting Template.

Exemptions

The bill exempts from these group capital calculation filing requirements an insurance company holding system that:

1. (a) has only one insurer in its company structure, (b) only writes business and is only licensed in its domestic state, and (c) assumes no business from any other insurer;
2. is subject to the group capital requirements applicable to an insurance group that owns a, presumably, Federal Reserve Board-supervised depository institution (in which case the bill requires the lead state commissioner to request the applicable capital requirements from the Board; and the insurer loses the exemption if information sharing agreements prevent the Board from disclosing them);
3. has a non-U.S. group-wide supervisor from a reciprocal jurisdiction that recognizes the U.S. regulatory approach; or
4. (a) provides information to the lead state commissioner, through the group-wide supervisor, that meets certain NAIC financial standards and accreditation requirements and that the supervisor deems satisfactory to allow the lead state

commissioner to comply with a specified NAIC group supervision approach and (b) whose non-U.S. group-wide supervisor that is not in a reciprocal jurisdiction recognizes and accepts, as the lead state commissioner specifies in regulation, the group capital calculation as the world-wide group capital assessment for U.S. insurance groups that operate in that jurisdiction.

The bill requires the lead state commissioner to require the group capital calculation for the U.S. operation of any non-U.S. based insurance holding company system if, after consultation with other supervisors or officials, the lead state commissioner determines it is appropriate for prudent oversight, solvency monitoring, or ensuring market competitiveness. The lead state commissioner may require these regardless of the two exemptions for insurance holding company systems with non-U.S. group-wide supervisors listed above (items 3 and 4 above).

The bill also gives the lead state commissioner the discretion to exempt the ultimate controlling person from filing the annual group calculation, or to accept a limited group capital filing report in accordance with criteria the commissioner specifies in regulation.

If the commissioner determines an insurance holding company system no longer meets one of the exemptions above, it must file the group capital calculation at the next annual filing, unless the lead state commissioner gives an extension based on reasonable grounds.

LIQUIDITY STRESS TESTS

Under the bill, the ultimate controlling person of every insurer subject to registration (i.e., insurers affiliated with insurance holding companies) that is also scoped into the NAIC liquidity stress test framework for that year must file the results of the specified year's liquidity stress test with the lead state commissioner. (The liquidity stress test provides state insurance regulators with information on key macro prudential risk.)

The NAIC liquidity stress test framework includes scope criteria applicable to a specific data year. The bill specifies that these scope criteria are reviewed at least annually by the NAIC Financial Stability Task Force (“task force”), and any changes to the framework or to the data year take effect on January 1 of the following year.

The bill requires insurers meeting at least one threshold of the scope criteria to be scoped into the NAIC liquidity stress test framework, unless the lead state commissioner, in consultation with the task force, determines otherwise. Correspondingly, insurers that do not trigger at least one scope criteria threshold are scoped out, unless the lead state commissioner in consultation with the task force, determines otherwise.

The performance of, and filing of the results from, a specific year’s liquidity stress test must comply with (1) the applicable NAIC liquidity stress test framework instructions and reporting guidelines and (2) any lead state commissioner determinations made in consultation with the task force.

GROUP CAPITAL CALCULATION AND LIQUIDITY STRESS TEST CONFIDENTIALITY

The bill makes confidential the information reported and provided to the lead state commissioner by an insurance holding company system (including one supervised by the Federal Reserve Board) for group capital calculations and liquidity stress tests. Specifically, the information is:

1. confidential and privileged;
2. not subject to disclosure under the state’s Freedom of Information Act; and
3. not subject to subpoena, discovery, or admissible in any civil action.

The bill specifies these group capital calculations and the resulting group capital ratios, and the liquidity stress tests and its results and supporting disclosures, are only regulatory tools for assessing group

risks and capital adequacy and are not intended to rank insurers or insurance holding company systems generally.

INSURANCE COMPANIES IN HAZARDOUS FINANCIAL CONDITION

The bill adds provisions related to insurance companies that have to register as part of an insurance holding company system that the commissioner determines are in hazardous financial condition or in a condition that would otherwise be grounds for supervision, conservation, or delinquency, under applicable existing law or regulations.

Under the bill, the commissioner may require these companies to secure and maintain, a (1) deposit, to be held by the commissioner, or (2) bond, as the company determines. The deposit or bond must protect the insurance company for the duration of the contracts, agreements, or conditions that are causing the hazardous financial condition.

In determining whether the bond or deposit is required, the commissioner must consider whether the company's affiliates are able to fulfill its contracts or agreements if the company were liquidated. The commissioner sets the bond or deposit amount, which cannot exceed the value of the contracts or agreements in any one year. He may also specify which contracts or agreements the bond or deposit must cover.

DATA, RECORD, AND PREMIUM OWNERSHIP AND CONTROL

The bill specifies that all of an insurance company's records and data held by an affiliate remain property of the insurance company and are subject to the company's control. The records must be identifiable and segregated (or readily capable of segregation) from all other persons' records and all of the affiliate's data. Under the bill, an insurer should not pay to segregate commingled records and data.

At the insurer's request, the affiliate must allow the receiver to have:

1. a complete set of any records about the insurer's business,
2. access to the operating systems where the data is maintained, and

3. software that runs the systems (either by assuming the licensing agreements or otherwise).

The bill also restricts the affiliate's use of this data if it is not operating the insurer's business.

Under the bill, the affiliate must provide a waiver of any landlord lien or other encumbrance to give the insurer access to all records and data in the event the affiliate defaults on a lease or other agreement.

Additionally, premiums or other funds that belong to the insurer that are collected or held by an affiliate are the insurer's exclusive property, and subject to its control. The bill specifies that any rights to offsets of amounts due to or from an insurer or affiliate are governed by existing insurer receivership laws if the insurer goes into receivership.

REHABILITATOR OR LIQUIDATOR'S AUTHORITY OVER AN AFFILIATE

By law, an insurer that intends to contract with an affiliate for certain purposes must notify the commissioner first. Under the bill, an affiliate that is party to a management agreement, service contract, tax allocation agreement, or cost-sharing arrangement for which the insurer must give prior notice to the commissioner is also subject to the:

1. jurisdiction of any rehabilitation or liquidation order against the insurer and
2. authority of any rehabilitator or liquidator appointed under existing law to interpret, enforce, and oversee the affiliate's contractual obligations.

The commissioner can require an agreement or contract to specify that the affiliate consents to this authority. These provisions apply to contracts or agreements under which the affiliate performs services for the insurer that:

1. are an integral part of the insurer's operations, including management, administration, accounting, data processing,

marketing, underwriting, claims handling, investment, or similar functions, or

2. are essential to the insurer's ability to fulfil its obligations under insurance policies.

SHARING INFORMATION WITH THIRD PARTY CONSULTANTS

Existing law allows the Connecticut insurance commissioner to acquire from and share with certain parties confidential information related to regulatory reports and insurer oversight, under certain conditions. Among others, current law allows him to acquire and share this information with NAIC and its affiliates or subsidiaries. The bill instead allows this sharing with NAIC and any third-party consultants the commissioner designates.

Existing law requires the Connecticut insurance commissioner, prior to acquiring or sharing information, to enter into agreements that specify procedures for maintaining the information's confidentiality. The bill also requires these written agreements to:

1. require the recipient to agree in writing to maintain the confidentiality and privileged status of the documents, materials, or other information and has verified in writing their legal authority to do so (existing law already requires this to be affirmed in writing before the commissioner shares information);
2. prohibit NAIC or third-party consultants the commissioner designates from storing information on a permanent database after the underlying analysis is completed, excluding certain documents related to the liquidity stress tests; and
3. for certain documents related to the liquidity stress tests and only in the case of an agreement with a third-party consultant, provide for notice of the consultant's identity to the applicable insurer.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 16 Nay 0 (03/17/2022)